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C O N F I D E N T I A L SECTION 01 OF 02 NICOSIA 000152

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TAGS: ECON PREL PGOV CY

SUBJECT: HOW COMMUNIST IS CHRISTOPIAS?

Classified By: AMB R. SCHLICHER FOR REASON 1.5 (B) AND (D)

¶1. (C) Summary: The Cypriot business community is confident that despite his education in the old Soviet Union and refusal to disavow his or his party's communist label, President Christofias will keep his promises to maintain the orthodox economic policies that have helped Cyprus grow over the past few decades. Although GOC social spending and labor union influence will probably increase, observers believe that the government budget will stay within EU requirements.  
End Summary.

¶2. (C) In conversations with businessmen, bankers, and economists of varying political affiliations, but mostly right-of-center, all agreed that newly-elected president Demetris Christofias is communist only in name, and actually holds economic views closer to those of northern European social democrats. They dismiss Christofias's refusal to change the official ideology of his "Progressive Party of the Working People of Cyprus" (AKEL) as a desire to "maintain his brand" and "not confuse the electorate."

Limited Room for Experimentation

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¶3. (C) Our interlocutors also believe that, even if they are wrong about the intensity of Christofias' left-wing views, his ability to act on them will be constrained by a) Cyprus' membership in and commitments to the EU and EMU, b) a parliament which AKEL does not control, and c) ministers in key economic portfolios who hold orthodox economic views. Many also point out that AKEL itself has important business interests that they would not want to harm, including control over Cyprus' largest printing company (Printco), a major coffee roaster (Laiko), winery (Loel,) and a group of travel agencies.

The Economic Platform

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¶4. (U) In the run-up to the February 24 election, Christofias outlined his economic platform with the following planks:

-Vision for a multi-faceted and multi-level development policy through a mixed economy;

-Safeguarding workers' rights while, at the same time, promoting business activity, as well as social peace, for the benefit of all;

-Social and economic development centered on people and their needs;

-Continuous adaptation to technological progress and improved productivity through the encouragement and utilization of research and innovation;

-Supporting Small and Medium-Sized Enterprises;

-Safeguarding the social character of public benefit organizations but also encouraging bold modernization so that they become more flexible and competitive;

-Macroeconomic stability through disciplined fiscal policy;

-Implementing new policies to attract foreign investment;

-Modernization and radical restructuring of the tourism sector;

-Introducing high and appropriate technology in the manufacturing sector; and

-Offering economic and advisory state support for the introduction of new sectors and products.

¶15. (C) While these goals are mostly generalities and perhaps occasionally contradictory, they indicate to the Cypriot business community that, although there is likely to be increased social spending (especially for certain pensions, single parents and health care), it will be undertaken with care to ensure no disruption to macroeconomic conditions and Cyprus' continued perception as a business-friendly environment.

#### Union Power

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¶16. (C) We met with Pambis Kyritsis, an AKEL MP and Secretary General of PEO, the AKEL-associated labor union, for his take on how Christofias' policies will be manifested. He affirmed

NICOSIA 00000152 002 OF 002

that more money would be spent on "social justice," especially for pensioners below the poverty level (he estimated 60,000 persons are in this category). But he added that the current "mixed economy" would continue and that no additional companies would be considered for nationalization. He stressed that Christofias and his team realize that "we can only spend more on social programs if the economy grows. We believe in the market economy."

¶17. (SBU) Given AKEL's close ties with the labor union movement (which count 60 percent of the work force as members) and calls for "safeguarding workers' rights", many expect Christofias to enact policies that favor union interests. However, if the administration of Cyprus' two largest cities by AKEL mayors is any indication, municipal unions have not only not been favored, but been the subject of the mayor's calls for improved efficiency and budgetary rectitude. Mayor Eleni Mavrou of Nicosia (a member of AKEL's Central Committee) has even called for outsourcing of more municipal functions as a way to improve service and lower costs. The unions have not yet objected to this proposal, although it is still at the study stage.

¶18. (C) Comment: Most observers expect the Christofias administration to increase social spending and transfer payments, but not spend past the point of a three percent of GDP budget deficit (per EU requirements.) Christofias's attitude is said to be that, if the rules allow a deficit up to three percent, then that is the target, but the target must not be exceeded. There is no indication of where Christofias would make budget cuts if a decline in Cyprus' GDP left tax revenue below projections.

¶19. (C) Comment continued: Christofias is expected to be generally friendly to business and foreign investment. We would be surprised if he ever attempts to nationalize anything not already government-controlled. However, he is also unlikely to address Cyprus' structural problems such as a demographically-challenged pension system, automatic indexation of wages to CPI, and the existence of large

parastatals that control important sectors of the economy (especially energy and telecom). The tight discipline AKEL maintained throughout the election also indicates that any more ideologically driven AKEL members appointed to important positions in the economy will not stray beyond the parameters Christofias sets. How U.S. business is treated in government tenders remains to be seen (given AKEL's penchant for occasional broadsides against "Anglo-American imperialism") as does the question of whether Christofias will grow more populist as his term of office begins to expire or if economic conditions in Cyprus become less benign.

SCHLICHER